

**ENDOWMENT FUND INVESTMENT BOARD
MINUTES OF THE REGULAR BOARD MEETING
February 27, 2003**

Board Members Present:

Dr. Nick Hallett
M. Dean Buffington
Representative William W. Deal
Gavin M. Gee
William D. Mitchell
Parker G. Woodall

Members Absent:

Senator Dean L. Cameron
Thomas F. Kealey
R. John Taylor

Staff Present:

Matthew J. Haertzen, CFA
Jennifer Outram-Dobler
Connie Eshelman
Andrew Potter
Mary Livengood

Guests:

State Insurance Fund

Clark Barnett

R V Kuhns

Doug Dorn

RBC Dain Rauscher

Susan Tamagni
John Pickett

Clearwater Advisors

Chris Growney
Doug Bates
Mike Boren

Chairman Nick Hallett called the meeting to order at 1:32 PM and recognized that a quorum was present.

APPROVAL OF MINUTES

It was noted that in the minutes of the special meeting on January 27, 2003, reference was made in the title to "Regular Meeting" instead of "Special Meeting." Motion by Mr. Woodall, second by Mr. Gee to approve the minutes of the January 27, 2003, special meeting with the correction "Special Meeting" as noted above. The motion carried unanimously.

STATE INSURANCE FUND

PERFORMANCE REPORT - Doug Dorn, R V KUHNS

Mr. Dorn gave a brief review of the Milliman USA performance report. He stated that going forward performance will be reported by R V Kuhns. Mr. Dorn stated that performance was good for the quarter. Some changes have been made to the asset allocation. Mr. Dorn noted that Mr. Haertzen has been very easy to work with, and Mr. Haertzen commented that staff now has a clearer understanding of State Insurance Fund expectations.

UPDATED POLICY AND GUIDELINES

Motion by Mr. Woodall, second by Mr. Mitchell to approve the updated State Insurance Fund Policy and Guidelines and authorize the chairman to sign them. The motion carried unanimously. Motion by Representative Deal, second by Mr. Buffington to approve the State Insurance Fund operating agreement with the Endowment Fund Investment Board. The motion carried unanimously.

JUDGES' RETIREMENT SYSTEM

A) PERFORMANCE REPORT

Mr. Haertzen stated that Bill Reese is taking a one-year leave of absence and has designated his son Clark to fill in while he is out. Clark Reese has helped his father in the past so is familiar with the situation with the Judges' Retirement System.

Mr. Haertzen noted there have been material changes at Tom Johnson, Inc. since Mr. Johnson sold the firm and left their employ. Their performance has been poor for the last two years. Mr. Haertzen suggested that when the Endowment Fund Investment Board hires mid cap equity managers, that the managers also manage a portion of the Judges' equity portfolio. Motion by Mr. Woodall, second by Representative Deal to recommend to the Judges to start a search for a new manager, to validate the legality of coupling their portfolio with the Endowment Fund portfolio, and to replace Tom Johnson, Inc. as the equity manager. The motion carried unanimously.

Mr. Haertzen noted that Rainier Investment Management's performance is solid, and there have been no material changes in staff. He feels the Judges should retain Rainier Investments for fixed income management. Ms. Outram-Dobler and Ms. Eshelman were in Seattle, Washington, on February 19, 2003, and visited the Rainier office.

B) UPDATED STATEMENT OF PHILOSOPHY AND OBJECTIVES

Mr. Haertzen noted that the finalized copy of the Statement of Philosophy and Objectives was included for the board's information, but no action is required. He is also working with the Judges on legislation to allow the Judges' investment legislation to be more in line with the legislation governing the Endowment Fund Investment Board.

ENDOWMENT FUND

A) RBC DAIN RAUSCHER REPORT - Susan Tamagni, John Pickett

Mr. Pickett explained the new report format and asked the Board for input regarding the new format. The Board likes the new format. Mr. Pickett discussed performance and noted that some managers are not performing up to their benchmark, particularly Trainer Wortham. Since RBC Dain Rauscher is working with Mr. Haertzen to hire a manager or managers in the mid-cap area, he does not recommend any terminations at present. There will be a rebalancing of funds when new managers are hired. Mr. Pickett stated the market has been down for three consecutive years, which has not occurred since the early 1900s.

He also noted that currently 12% of the equity portfolio is allocated to international. He is proposing to increase that by 10% to better balance the equity portfolio. There is only one international manager, and our international exposure needs to be increased. The small-cap value and large-cap growth are overweighted. It was suggested to split the large-cap growth and large-cap value about in half and invest in an index fund. This will make rebalancing more cost-effective but will also be a small change in philosophy. RBC Dain Rauscher is working with Mr. Haertzen to find mid-cap value and mid-cap growth managers. The goal is to have them in place by April 1, 2003. The plan is to rebalance based on allocation targets instead of once a calendar year. Mr. Buffington wants a strict discipline in place.

Discussion was held concerning individual managers: Mastrapasqua has some mid-cap value exposure; they will be evaluated to see how they fit with the new alignment. Trainer Wortham is heavily weighted to health care and technology and has had some major personnel changes. Met West is a large-cap value manager. Nicholas|Applegate is also being evaluated. Strong has done well managing their portfolio. Lazard is a value-oriented international manager; they have had low turnover and are doing well.

B) COMMITTEE REPORTS

Audit Committee

The audit committee met and developed a new audit policy. This policy covers suggestions made by the Land Board. The policy is a work in progress and will be reviewed in August at the Roundtable Meeting.

Bond Committee

Mr. Buffington noted there is nothing new to report since the January 23, 2003, meeting.

C) STAFF REPORTS - Jennifer Outram-Dobler

Ms. Outram-Dobler discussed these reports.

- Holdings with Ratings Below Quality Limitations
- Equity Managers= Contributions vs. Market Value
- Market Value Comparison
- Securities Lending Income
- Capital Gains
- New Monies
- Portfolio Values
- Expense Report

D) CONSULTANT REQUEST FOR PROPOSAL (RFP)

Mr. Haertzen presented the conceptual draft of the Request for Proposal (RFP) for a new consultant contract. Ms. Outram-Dobler has developed a timeline and a suggested list of consultants to receive the RFP. Mr. Haertzen noted that he plans to share the consultant information with the Board of Land Commissioners (Land Board) when proposals are received and request their input into the hiring of the consultant. Motion by Representative Deal, second by Mr. Woodall to authorize the Manager of Investments to send out the RFP when it has been approved by the Division of Purchasing and Attorney General=s Office. The motion carried unanimously.

E) MID-CAP MANAGER SEARCH

Mr. Haertzen reported that he is working closely with John Pickett and team to screen three databases to do a mid cap manager search. Fifteen value managers and 12 growth managers were screened for consistency, then the number was reduced to 7 value managers and 5 growth managers. After further screening, the number was reduced to 4 value managers and 3 growth managers. After checking to see how those managers= styles fit EFIB=s philosophy, the field will be narrowed even further. Hopefully to 2 finalists on each side to present to the Executive Committee. Mr. Haertzen plans to bring the finalists before the Land Board. His goal is to have this completed in April and present the finalists to the full board at the May meeting.

F) MONEY MARKET INVESTMENT WITH CLEARWATER ADVISORS, LLC

Ms. Eshelman explained that PERSI is using Clearwater to manage their money market funds. Clearwater is a local firm and can work more closely with office staff. Their costs will be less than those charged by Key Asset Management for the Victory fund and will give the manager more up-to-the-minute hands-on viewing. Mr. Mitchell asked the gentlemen from Clearwater to introduce themselves and give a brief history of their organization.

Mr. Bates of Clearwater explained that there are four partners in the firm, and they have been in business in Boise for about eight years. All have experience with major investment firms and are located in Boise because they like the area. The plan is to replace the money-market funds with their investments. They offer real-time transparency into investments, and EFIB staff can view the portfolio at any time. He noted that Clearwater is working on a formal proposal and agreement with the Endowment Fund Investment Board to be presented at a later date. Mr. Haertzen noted that, as with equity managers, the bid process is not necessary; but the Board will be presented with the final proposal and agreement.

OLD BUSINESS

A) CURRENT OFFICE LEASE

Mr. Haertzen noted that a table showing the current five-year lease has been included in the packet. He also noted that with the tight economy, this is not the time to look for new office space. However, the process to search for new quarters will begin in about one year.

B) EXPENSES POLICY

In light of some questionable spending on the part of Boise City officials, staff devised a written, internal policy governing approval of expenses. Motion by Mr. Woodall, second by Mr. Buffington to adopt the Expenses Policy with the addition of wording to state that travel expenses by the Manager of Investments in excess of \$100 above those listed on the Travel Approval Form will be checked and approved by the Chairman or Vice-Chairman prior to reimbursement. The motion carried unanimously.

C) INTERNAL CONTROLS UPDATE

Discussion was held concerning a written internal trading policy. Mr. Haertzen explained there are two areas of internal controls of fixed income management. Ms. Eshelman makes trades, Mr. Haertzen approves the trades, and Ms. Outram-Dobler reviews the trades. Mr. Potter also reviews the trades. A written internal trading policy will be presented at the May meeting for approval by the Board

D) MOVING EXPENSE UPDATE

Mr. Haertzen noted that his moving expenses exceeded the original approval level of \$5,000 by \$566. That amount was approved at the February Board of Examiners meeting, and all his moving expenses will be paid by the Endowment Fund Investment Board.

E) CASH FLOW PROJECTIONS

Mr. Haertzen reported that he continues to discuss the cash flow projections with the Land Board and their staff. No resolution has been offered so far.

F) QED

Mr. Haertzen stated that effective June 30, 2003, the Treasurer's Office plans to discontinue using the current QED system for investment accounting. Ms. Eshelman is currently looking at other systems for to accommodate the State Insurance Fund's requirement for an independent system.

NEW BUSINESS

A) INDEPENDENCE REQUIREMENT STATEMENTS

All members in attendance signed and returned their statements to the secretary. She will also contact absent board members to have them return these statements to be on file for the audit in July 2003.

B) FY 2004 BUDGET REPORT

Mr. Haertzen noted the EFIB budget for fiscal year 2004 is scheduled to be set by the Joint Finance and Appropriation Committee (JFAC) on February 28, 2003. Representative Deal noted that other agencies are seeing an 8% reduction in their budgets.

C) CREDIT ENHANCEMENT PROGRAM FOR SCHOOL BONDS

Representative Deal explained the Treasurer's Office has requested that he introduce RS13027C1 (currently being held in Committee) that concerns raising the amount obligated for the Credit Enhancement Program for School Bonds. Representative Deal wants the Board to express their feelings about raising the amount made available in the Public School Endowment Fund from \$100,000,000 to \$200,000,000 and increasing the obligation from two times that amount to three times that amount. After discussion, Representative Deal stated he believes that we cannot obligate more funds for bonds than the Public School Fund has in it. He will recommend raising the limit from \$100,000,000 to \$200,000,000 and leaving the obligation at two times that amount. No action is necessary.

D) AUGUST ROUNDTABLE MEETING

The Audit Committee feels a need to hold a Roundtable Meeting in August to discuss the RFP for a new independent audit contract. The current contract has been renewed on an annual basis for three years beyond the original five-year contract and it is time to issue a new contract. The Roundtable was tentatively set for August 20, 2003, and the regular board meeting was tentatively set for August 21, 2003, at 9:00 AM.

E) APRIL 8, 2003, LAND BOARD/EFIB JOINT MEETING

The Land Board requested a joint meeting between the two boards about twice a year. The date for the next meeting has been set for April 8, 2003. Members were asked if they had conflicts with that date. Mr. Woodall stated that he might not be available that day.

F) TRANSFER OF FUNDS

Mr. Haertzen stated that, in following the guidelines of the Expenses Policy, he wants to request that the Board authorize the transfer of funds from savings in the Personnel budget to the Capital Outlay budget to purchase a new network server as has been recommended by our Information Technology contact. Our current server is obsolete. Motion by Mr. Woodall, second by Representative Deal to approve the transfer of \$7,000.00 from Personnel to Capital Outlay to purchase a new network server. The motion carried unanimously.

G) STAFF EDUCATION UPDATE

Mr. Haertzen noted that Ms. Eshelman has enrolled in the Certified Financial Analyst (CFA) program.

H) DAY AND TIME FOR MAY MEETING (Proposed for May 21, 2003, at 9:00 AM)

The next meeting was set for Wednesday, May 21, 2003, at 9:00 AM.

There being no further business, the meeting was adjourned at 3:30 PM.

- MOTION: To approve the minutes of the January 23, 2003, special meeting as corrected.
- MOTION: To approve the updated State Insurance Fund Policy and Guidelines and authorize the chairman to sign them.
- MOTION: To accept the new Management Agreement between the State Insurance Fund and the Endowment Fund Investment Board.
- MOTION: To recommend to the Judges to start a search for a new manager, to validate the legality of coupling their portfolio with the Endowment Fund portfolio, and to replace Tom Johnson, Inc. as the equity manager
- MOTION: To proceed with the RFP for a new consultant contract.
- MOTION: To adopt the Expenses Policy with the addition of wording to state that travel expenses by the Manager of Investments in excess of \$100 above those listed on the Travel Approval Form will be approved by the Chairman or Vice-Chairman prior to being reimbursed.
- MOTION: To approve the transfer of \$7,000.00 from Personnel to Capital Outlay to purchase a new network server.